



The President's Daily Brief

27 July 1973

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FOR THE PRESIDENT ONLY

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PRINCIPAL DEVELOPMENTS

Insurgent forces are closing in on Phnom Penh.
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Communist concessions in the Laos negotiations have brought the two sides closer to agreement. (Page 2)

The North Vietnamese now have fewer logistic forces in Laos than before the cease-fire, but retain a substantial capability to infiltrate men and supplies through the country. (Page 3)

The other EC members have made some progress in overcoming France's resistance to accommodating the US on a number of issues. (Page 4)

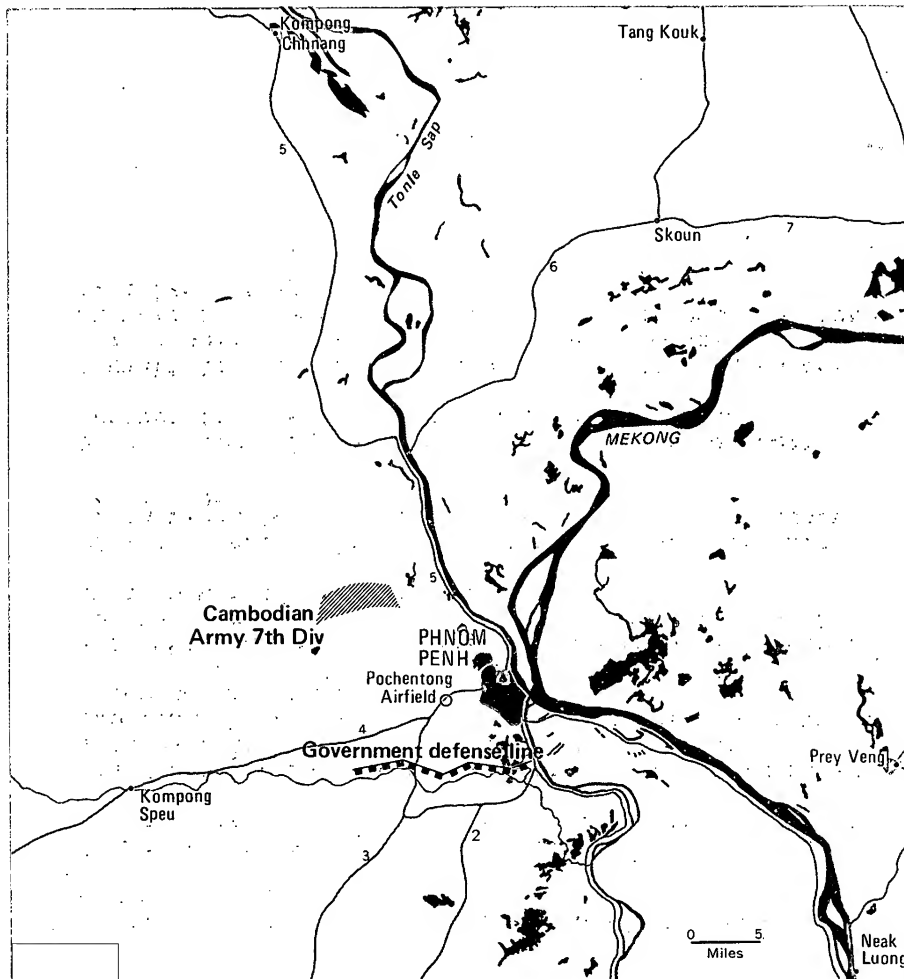
Only one month after being revalued, the mark has again risen to the top of the European joint float band. (Page 5)

On Page 6 we discuss President Allende's current efforts to ease political tensions in Chile.

Israeli Defense Minister Dayan is advocating an activist policy that other Labor Party leaders say amounts to "creeping annexation" of the occupied territories. (Page 7)

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CAMBODIA: Phnom Penh Area



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CAMBODIA

Khmer Communist forces are moving closer to the capital. The heaviest fighting is a few miles south and southwest of Phnom Penh. The Communists are maintaining steady pressure, concentrating most of their effort along Route 3. Some insurgent elements are now only five miles from the capital's airport. Others have closed with the army's 7th Division ten miles northwest of Phnom Penh. Thus far, the division has held its own.

The insurgents are trying to erode government strength and tighten the ring around the capital, even though these tactics leave the Communists vulnerable to air and artillery strikes. They have not yet launched ground attacks on poorly defended installations closer to Phnom Penh, or tried to interdict Routes 4 and 5--the capital's vital supply lines.

The government has ordered a "general mobilization" and is implementing the new conscription law, but these measures will probably have little immediate effect.

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LAOS

Chief government negotiator Pheng Phongsavan claims that his Communist counterpart made significant concessions on July 24. The Communists are said to be willing to drop their demand that Souphanouvong be appointed sole deputy prime minister, and are no longer insisting that the Communists be given the defense or interior portfolio. They also have reportedly agreed to postpone any demarcation of zones of control until after a new government is formed.

In return for these concessions, Pheng said that the Communists continue to insist on one key demand--that they have a veto over the operation of joint inspection teams that are to verify the withdrawal of foreign forces. Pheng expressed the view that Souvanna will accept this demand in order to get a new government formed by August 15.

Still other sticking points remain to be resolved. Pheng acknowledged to the US chargé, for example, that the two sides have not yet agreed on the stationing of security troops in Vientiane. In addition, Pheng has said nothing about any decision on the fate of the irregulars and their bases.

If Pheng cannot iron out the remaining issues, Souvanna will once again take personal charge of the talks. The Prime Minister wants a final agreement soon. He may quickly accept Communist terms on the remaining issues.

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NORTH VIETNAM - LAOS

Hanoi has reduced its forces in Laos by about 25 percent since the cease-fire in February. Its 63,000 men still in Laos include some 36,000 combat troops--whose numbers have fallen only slightly in this period.

A major reorganization of Hanoi's rear services structure in southern Laos accounts for most of the decrease. A reduction in support troops by 19,000 includes the shift of some 13,000 men to the new logistical corridor inside South Vietnam. In addition, the North Vietnamese have disbanded several units and reduced others, probably sending the men home for the rainy season.

With 20,000 rear service personnel remaining in the panhandle, the North Vietnamese will still have a substantial capability to infiltrate supplies and men through Laos in the coming dry season, even if no units return from South Vietnam. The current upgrading of the road system will ease the task, and the cease-fire environment will be less demanding.

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EC

At meetings in Copenhagen and Brussels this week the other EC members made some progress in overcoming France's resistance to accommodating the US on a number of issues.

The political consultations in Copenhagen focused on plans for President Nixon's visit to Europe in the fall. French Foreign Minister Jobert initially contended in effect that Europe should express its "identity" by refusing to develop a concerted approach to the visit. He later conceded, however, that the EC should choose subjects for discussion and that the visit could be the starting point of a US-European dialogue. The political committee will now work toward developing a consensus on the issues the Europeans will raise.

The French remain adamant that defense matters must be kept separate from community discussions and addressed solely in the NATO forum. The EC countries' permanent representatives to NATO will coordinate on the defense aspects of the President's visit.

The division of preparations between the NATO and EC forums argues against the development of a single all-encompassing Atlantic declaration.

The later EC Council meeting in Brussels rejected a French proposal that the coming multinational trade negotiations be held up until the dollar had returned to its parity of February 12. Paris also seems to be softening its opposition to US demands for compensation to offset trade damage resulting from the community's enlargement.

FOR THE PRESIDENT ONLY

INTERNATIONAL MONETARY DEVELOPMENTS

News of another large West German trade surplus in June, together with continuing tight German credit conditions, drove the mark up against all major currencies yesterday. Despite substantial support from the Bundesbank, the dollar fell almost one percentage point relative to the mark. The mark is now worth 44 cents in contrast to 31 cents a year ago.

The joint float is in jeopardy. The mark has again risen to the top of the European joint float band, only one month after being revalued, and the gap between the strong and weak currencies is widening. The Bundesbank has had to intervene in several European currencies to maintain the narrow band.

Bonn has several choices, all of them unattractive. It can continue to purchase dollars and joint float currencies in increasing amounts, but would thereby undermine the Bundesbank's anti-inflationary policy. It can revalue the mark again, but feels this would only encourage further speculation. Or it can break away from the joint float altogether, a course it fears would damage European unity.

In any event, the current problems are demonstrating to the Europeans the difficulty of attempting to maintain fixed parities without substantial progress toward economic and monetary union in the EC.

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CHILE

President Allende is feeling the heat. In an impassioned speech on Wednesday, he pleaded with the opposition Christian Democrats to help avert civil war by engaging in a dialogue with the government. He was not willing to retreat from his government's major principles or programs in order to get the talks started, but he was conciliatory on some issues of major concern to the Christian Democrats and the armed forces.

The Christian Democrats reportedly are ready to begin talks with the government if the armed forces participate as members of the cabinet. In his speech Allende denied rumors that the re-entry of the armed forces into his government is imminent, but [redacted] the President is tending in this direction.

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Allende's condemnation of leftist "ultrarevolutionaries" as tools of the far right may indicate that he is trying to work toward a compromise under which the military could re-enter the cabinet. He appears to be trying to break the tough stand of the Socialists and Communists on this and other issues in order to gain room to maneuver.

In so doing, of course, Allende risks seriously straining his governing coalition.

Meanwhile, actions by leftist and rightist extremists and private groups--such as the truck owners' strike declared yesterday--may yet lead to a military coup. [redacted]

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ISRAEL

Defense Minister Dayan is campaigning for election to the Knesset this October on a platform that is likely to affect Israel's policy toward the Arabs. Dayan believes a peace settlement is a long way off and favors an activist policy of Israeli settlement and economic development in the occupied territories. He is threatening to leave the ruling Labor Party if it does not accept his views.

Other leaders of the Labor Party--Mrs. Meir, party boss Sapir, and Foreign Minister Eban--have been decrying this "creeping annexation" idea in their campaign speeches. They point to the economic costs involved, the demographic threat posed by Arab populations to the Jewish state, and the permanent block to a peace settlement that annexation would entail.

To keep Dayan in the party, his colleagues will have to go at least part way to meet his demands. In time, Dayan too will probably make a pragmatic accommodation with the party leaders.

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NOTES

World Youth Festival: Organizers of the tenth World Youth Festival opening in East Berlin tomorrow have taken steps to prevent repetition of embarrassments experienced at the ninth festival, held in Sofia five years ago shortly before the invasion of Czechoslovakia. The more militant delegates may have difficulty in accepting the rationale for US-Soviet detente, and Pankow is bracing for any incidents Arab extremists or leftist fringe groups may provoke.

Japan - North Korea: The Japanese have agreed for the first time to grant export-import bank credits to North Korea to finance the purchase of a small plant. The North Koreans have been seeking such financing for several years, but Tokyo has held back because of South Korean and US objections. The Japanese say they intend to finance only small-scale projects and to move ahead slowly, but further expansion of trade relations with Pyongyang is likely.

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